



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
SHAD WHITE
STATE AUDITOR
April 5, 2019
Financial Audit Management Report

Harry Lee James, State Aid Engineer
Mississippi Department of Transportation
Office of State Aid Road Construction
P.O. Box 1850
Jackson, MS 39215-1850

Dear Mr. James:

Enclosed for your review is the financial audit finding for the Mississippi Department of Transportation-Office of State Aid Road Construction for the Fiscal Year 2018. In this finding, the Auditor's Office recommends the Mississippi Department of Transportation-Office of State Aid Road Construction strengthen controls over the segregation of duties in the Statewide Payroll and Human Resource System (SPAHRS).

Please review the recommendations and submit a plan to implement them by April 18, 2019. The enclosed finding contains more information about our recommendations.

During future engagements, we may review the finding in this management report to ensure procedures have been initiated to address the finding.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Mississippi Department of Transportation-Office of State Aid Road Construction's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mississippi Department of Transportation-Office of State Aid Road Construction's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

I hope you find our recommendations enable the Mississippi Department of Transportation-Office of State Aid Road Construction to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Department of Transportation-Office of State Aid Road Construction throughout the audit.

If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in blue ink, reading "Stephanie C. Palmertree", is located below the "Sincerely," text.

Stephanie C. Palmertree, CPA, CGMA
Director, Financial Audit and Compliance Division
Enclosures

FINANCIAL AUDIT MANAGEMENT REPORT

The Office of the State Auditor (OSA) conducts the annual audit of the State of Mississippi's *Comprehensive Annual Financial Report* (CAFR), as compiled and prepared by the Department of Finance and Administration for the fiscal year ended June 30, 2018. While OSA has not been engaged to audit your agency's financial accounting records and processes individually, we have been engaged by DFA to audit the State as a whole in accordance with Government Auditing Standards. We conducted this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Our procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

Internal Control over Financial Reporting

In planning and performing our audit of the State of Mississippi's CAFR, we considered the Mississippi Department of Transportation-Office of State Aid Road Construction's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the significant accounts selected, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Mississippi Department of Transportation-Office of State Aid Road Construction's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, identified in this letter as item 2018-035, which we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether selected accounts included on the financial statements of the Mississippi Department of Transportation-Office of State Aid Road Construction are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

SIGNIFICANT DEFICIENCY

<u>Finding Number</u>	<u>Finding and Recommendation</u>
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2018-035	<u>Controls Should be Strengthened Over the Segregation of Duties in the Statewide Payroll and Human Resource System (SPAHRS).</u>
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Repeat Finding	No.
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Criteria	<p><i>The Internal Control – Integrated Framework</i> published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the <i>U.S. Government Accountability Office Standards for Internal Control in the Federal Government</i> (Greenbook) specify that a satisfactory control environment is only effective when control activities, such as proper segregation of duties, exist and are effective.</p>
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Segregation of duties is the sharing of responsibilities within a key process and dispersing the critical functions of that process to more than one person or department. When proper segregation of duties is not practical, compensating controls, such as increased review and reconciliation, should be implemented to ensure proper internal control activities have been met. Good internal controls require effective segregation of duties within SPAHRS to ensure critical business functions are performed by separate individuals to prevent incompatible duties which may allow users to perpetuate and conceal errors or fraud in the normal course of duty.

The State of Mississippi's Mississippi Agency Accounting Policies and Procedures (MAAPP) Manual Section 30 – Internal Control states that each state agency implement a system of internal control in accordance with the principles of COSO, including having a proper control environment.

Condition	During testwork performed for fiscal year 2018, including an assessment of the internal controls of the Statewide Payroll and Human Resource System (SPAHRS), we noted four users that had access to both the human resource/recording function (PHUSR02C) and the payroll/authorization function (PHUSR03).
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Cause	There are inadequate controls surrounding SPAHRS' segregation of duties.
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Effect	Failure to properly segregate duties and limit user access among agency personnel greatly increases the risk of fraud, misappropriation of assets,
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inappropriate changes to data or files and unauthorized activity which can result in misstatement of financial position.

Recommendation We recommend the Mississippi Department of Transportation-Office of State Aid Road Construction implement a processes to review individuals who have been granted access to SPAHRS to ensure that access to the payroll function and human resource function have been appropriately authorized and segregated and to implement compensating controls when proper segregation of duties is not practical.

End of Report

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FINANCIAL AUDIT FINDING

Shad White, State Auditor
April 16, 2019
Office of the State Auditor
State of Mississippi
P.O. Box 956
Jackson, MS 39205-0956

Dear Mr. White:

This letter is in response to the Financial Audit Management Report dated April 5, 2019 regarding the Fiscal Year 2018 audit of the Mississippi Department of Transportation-Office of State Aid Road Construction. We respectfully submit our response and corrective action plan for the finding listed below.

AUDIT FINDING:

2018-035 Controls Should be Strengthened Over the Segregation of Duties in the Statewide Payroll and Human Resource System (SPAHRS).

Response:

The Mississippi Department of Transportation-Office of State Aid Road Construction (OSARC) concurs with the Office of the State Auditor's finding. Four of the fifty-four OSARC full-time personnel have access to SPAHRS. All four users have access to both the human resource/recording function, as well as the payroll/authorization function. These four users are responsible for all personnel, payroll, travel, and leave functions in the agency. Due to the size of the agency, and in order to have a primary and secondary user for the required functions, proper segregation of duties is not practical. Internal controls are in place to compensate for the lack of segregation within SPAHRS.

Corrective Action Plan:

A.

1. All entries in SPAHRS must be approved by one of the control agencies. Personnel action entries must be approved by the Mississippi State Personnel Board. Payroll, travel, and leave entries must be approved by the Department of Finance and Administration.
2. Prior to entries in SPAHRS being forwarded to one of the control agencies for approval, in-house policy requires that one person generates an entry and another approves the entry. Monthly and supplemental payroll is prepared by Tashala Williams or Nita Caylor and reviewed/approved by Nita Caylor or Brandi Stuart. Personnel actions are entered by Audrey Carter or Brandi Stuart and must be made with accompanying forms. These forms must be signed by the employee, Audrey Carter, Brandi Stuart, and the State Aid Engineer (Executive Director). These forms are reconciled with the monthly preliminary payroll run to support any changes to agency personnel records in SPAHRS. Once leave is entered into the system, each supervisor approves the Leave Balance Listing for their department. Travel Vouchers must be verified and approved and are reconciled with approved Travel Authorizations before being processed.

B.

Persons responsible for the corrective action plan:

1. Brandi Stuart – OSARC Director of Administrative Services
2. Nita Caylor – OSARC Director of Accounting and Finance
3. Audrey Carter – OSARC Director of Human Resources
4. Tashala Williams – OSARC Accountant

C.

Steps A.1 and A.2 are currently in place and strictly adhered to.

Sincerely,

A handwritten signature in blue ink that reads "Harry Lee James". The signature is written in a cursive style with a large, stylized "H" and "J".

Harry Lee James, P.E.
State Aid Engineer